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Municipal Accounting and Auditing

BY

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OF THE FIRM OF F. H. MACPHERSON AND COMPANY
CHARTERED ACCOUNTANTS



DETROIT, MICH.

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BY

F. H. MACPHERSON, F. C. A.

A Lecture delivered before the Institute of Chartered Accountants, Ontario, and the Chartered Accountants Students' Association at Toronto, Ont., Dec. 22nd, 1905.

The committee in charge of the preparation of your lecture course has, and very properly, selected the subjects for the several addresses to be delivered during the Winter session.

In view of the fact that the Institute, at its recent annual meeting, amended the By-laws, providing, amongst other things, for an examination paper which shall deal altogether with the subject of Municipal Accounting and Auditing, it would seem proper that some material should be gathered together, and presented in fairly consecutive order, setting out such a course of study as would prove of service to the applicant.

The student who is preparing himself for his Final examination, may be inclined to suggest, that to require anything more than the merest knowledge upon this subject, is expecting too much, the more especially since there does not seem to be any particular text book from which the information may be drawn in anything like concise form. And because, further, the majority of those who seek to take the examination will have had little or no opportunity of obtaining the requisite knowledge in a practical way.

In course of business I have had considerable experience along the line of municipal accountancy and investigation, and, as the result of the knowledge thus gained, I have had impressed upon me very forcibly the necessity that those who practice as, or seek to become, chartered accountants, should acquaint themselves with the laws relating to municipal accounts, with the methods of keeping such accounts and with what constitutes the requirements of a competent and thorough audit. I, therefore, suggested the recent amendment to the by-laws, requiring a paper devoted specially to the subject of this evening's address. It will not, I think, be necessary even to suggest the impossibility of covering a very large subject in the short paper which I shall present to-night—granting that I possessed the necessary ability—upon which point I am quite positive of my deficiency.

COURSE OF STUDY.

Before entering upon a discussion of the principles which shall govern, and the routine which should be followed in connection with an audit of the accounts of a municipality. I shall enumerate, so far as I recall them, the sources of information immediately available to the student for purposes of preparatory study.

The following Acts of the Ontario Statutes:

Municipal Act

Assessment Act

General Drainage Act

Ditches and Water Courses Act

Drainage Aid Act

Tile, Stone and Timber Drainage Act

Public Health Act

Line Fences Act

Act Respecting Noxious Weeds

General Waterworks Act

Acts relating to Electric Light and Gas operations.

Other sources of information are:

The Reports of the Provincial Municipal Auditor (1898-1904).

The papers bearing upon Municipal Accountancy to be found in the proceedings of the St. Louis Congress of Accountants.

The list will probably not be complete unless I include therein the small book, "Municipal Accounting," in which is embodied an address presented by myself before this Institute at the 1900-1 session.

I would further suggest the reading of reported meetings of council, as found in the newspapers. If convenient attend such meetings and note the business done. It may not be properly or well done, but you will nevertheless be picking up information as to the nature of the business which is transacted. Having done this go to the statutes covering the matters dealt with and ascertain the statutory requirements governing the proceedings.

A MUNICIPAL AUDIT.

I should like to impress very strongly upon the minds of all aspirants for membership in the Institute the fact that the mere checking over of the accounts of a municipality, as found in the Treasurer's books, is the least of the auditor's duties. Any person of moderate intelligence can do so much as that.

And not the most important duty of the auditor is to detect fraud and wrongdoing; he should find these if they exist, but his duty is to see:

(a) that the moneys or sums to which the municipality is entitled are accounted for, either as a receipt, or as an asset;

(b) that the funds properly entitled to receive credit have so received credit;

(c) that all moneys received are properly accounted for, and that the expenditures have been made in accordance with the requirements of the statute, by-law, or resolution authorizing them, and out of the proper fund;

(d) that no improper and illegal expenditures have been made;

(e) that the accounts of the corporation are being properly kept;

(f) and if not, that recommendations be made, which, if enforced, will bring about the desired amendments;

(g) to advise with the council and to suggest changes in methods or policy, which will tend to improve the financial condition of the municipality.

For the purposes of our talk this evening we will discuss principally, the requirements in connection with an ordinary township audit. The principles covering such an audit are identical with those of the county, town or city; the difference being only in form and degree.

The auditor should first gather together at some convenient place, all the books, vouchers, documents, etc., relating to the affairs of the municipality. These will ordinarily be obtained from (a) the Treasurer; (b) the Clerk, and (c) the Tax Collector. The books in use should be listed, and initialed; and time will be saved if the several officials are invited to state, at the outset, the manner and method of performing their duties. A competent auditor will surely learn all these things during the course of the audit, but if he obtains the information at the inception of the work, considerable time will be saved, and, possibly, items which might otherwise be overlooked, may be brought within his knowledge.

The auditor should then obtain and make a record of the names of the several officials and of the reeve and members of council; the names and addresses of the county clerk and county treasurer; of the secretary-treasurer of the several school sections; if town lines are adjacent to more than one county, then the names of the county clerk and county treasurer of the outlying counties should be obtained; the names and addresses of the clerk and treasurer of all municipalities adjacent which have had or would be likely to have had any business transactions with the municipality, the affairs of which are under audit. It may be, through its drainage accounts, that townships or municipalities not immediately adjacent are interested; if so the names of these officials should likewise be obtained.

The auditor should at once forward letters to the clerk and treasurer, not only of the county or counties, but of the several townships, with a request which may read somewhat as follows:

Dear Sir:—

In connection with the audit, examination and inspection of the accounts of the municipality of upon which I am at present engaged, under authority of by-law No., I shall be obliged if you will furnish me with the following information:

(a) Date, amount and account for which received, of all moneys received by you from the township of between and (the period covered by this audit.)

(b) Date, amount and account for which paid, of all moneys paid by you to the Treasurer of the said municipality between the above dates.

(c) A statement of any claim or claims, with particulars, which you have against said township as of 190..., upon drainage, school, town line or other accounts.

(d) Statement of any sums due from your township to the above township as of same date, upon drainage, school, town line, or other accounts.

Thanking you in advance for the information and requesting an early reply,

Respectfully,

....., Auditor.

A statement should be requested from the local license inspector, of any sums paid to, or due to, the municipality, on account of liquor licenses, during the period covered by the audit.

A statement should be obtained from the inspector of schools, showing the apportionment to the several school sections, of the government grant or grants, during the period. Also of any special grants. If the local treasurer has retained the statements received by him from the license and school inspectors, requests for these will not be necessary.

The auditor should then proceed to become acquainted with the business transactions of the municipality by examining the records, not only reading the minutes and by-laws covering the period which is being audited, but for some time previous, so that he may be able, intelligently, to comprehend matters which will come to his attention in the course of the audit.

The reading of the minutes and by-laws will enable the auditor to ascertain to some extent what municipalities or persons were entitled to receive from, or to pay to, the treasurer of the local township, certain sums of money. Copious notes should be made as the reading proceeds. If the audit is to be brought down to a period which antedates the date of the appointment of the auditor, it will be necessary to continue the examination of the records from the date at which the audit is to close, down to the present moment. In this way, assets

or liabilities of the township which did not enter into the cash transactions of the year may be determined.

CHECKING DISBURSEMENTS.

The auditor should next take the vouchers for payments and check these against the minutes to ascertain that proper authority exists therefor, making a note of all disbursements made without the authorization of a resolution, by-law agreement or statute.

Usually a treasurer will produce vouchers, complete or incomplete, for payment for which he has taken credit. It is the duty of the auditor to examine and note for report, all vouchers, as to their sufficiency or otherwise. The chief deficiencies to be met with are: (a) failure to obtain endorsement of warrants payable to order; (b) failure to obtain proper witness to the endorsements upon warrants by persons unable to affix their own signatures; (c) payments to persons other than the payee; (d) payments to members of the council who endorse the warrant and agree to deliver the moneys received from the treasurer, to the persons entitled thereto; payments to Secretary-Treasurer of school sections without proper authorization of the trustees.

CHIEF SOURCES OF REVENUE.

The chief sources of revenue in a township are taxes from the collector; arrears of taxes, which may be collected either by the local treasurer or the county treasurer; government grants; and special grants from the county treasury; liquor licenses; licenses from hucksters and peddlers; fines from J. P.'s sales; of debentures; sales of cement pipe, gravel, etc. In my own experience, wherever deficiencies have been unearthed, I have found, in all but two instances which I am able to recall, that the defalcations arose, not from a manipulation of the funds after they had been entered in the books of account, but rather through a failure to enter. The average rural auditor, and in many instances the auditor of urban accounts, seldom checks the receipts entered in the treasurer's cash book, as against the various sources from which they have arisen. The greatest care is taken to see that there is a voucher of some sort for payments, but the revenue, to the extent that it is entered in the cash book, is accepted as accurate. It is fully as important that some form of voucher should be preserved in the case of receipts as well as of disbursements. This voucher may be in the nature of a stub in the official receipt book, or by the filing of the original letters which accompany payments to the treasurer. In every municipality there should be an official form of receipt; these should be numbered consecutively; and for every dollar received on civic account, an official receipt should be issued.

Every receipt in the book should be accounted for. If an error is made,

rendering necessary the cancellation of a receipt, the spoiled form should not be destroyed, but should be securely attached to the stub or counterfoil of the receipt book, for the benefit of the auditors. The same remark applies to checks. These should be taken from the corporation cheque book, every form should be accounted for, and no cheque should be taken for any other purpose. If a check has been spoiled and cancelled, it remains in the book to speak for itself, and explanations to the auditor are unnecessary.

Where it is possible, the township treasurer should be recommended to deposit all moneys received on township account in a chartered bank, and payment should be made only by cheque.

As to taxes, the auditor should reconcile the several collectors' rolls, which are involved in the period under review, with the entries in the treasurer's cash book.

The auditor must not stop at this, but he should ascertain likewise if the collector's roll is properly made up and that it contains all the charges which it properly should contain. Ordinarily the by-law which authorizes levies, does not contain a statement of the various sums which are to be levied. No auditor's report is complete which does not make recommendations along a line which will improve the methods of the officials.

A MODEL BY-LAW FOR LEVYING RATES.

A pro-forma exhibit of a by-law drawn to properly include all items entering into a collector's roll is here given:

BY-LAW NO.

Being a by-law to fix rates and to provide for the levy and collection of taxes for the township of for the year.....

Finally passed..... 190...

Whereas the Municipal Council of the Township of..... deems it necessary and expedient to pass a by-law for said purpose.

And whereas the total assessment of the Township of..... liable for County Rate, Township Rate, General Debenture Rate and Special Rate on Roads for Drainage Debentures is the sum of \$..... and the total assessment of said township liable for General School Rate is the sum of \$.....

Therefore, the Municipal Council of the Township of..... in the County of..... enacts as follows:—

1. That for raising the sum of \$..... for county purposes, a rate of mills on the dollar of the assessed value of the whole rateable property of the township be levied and collected.

2. That for raising the sum of \$..... for township purposes, a rate of mills on the dollar of the assessed value of the whole rateable property of the township be levied and collected.

3. That for raising the sum of \$..... for General Debenture Rate, a rate of mills of the whole rateable property of the township be levied and collected.

4. That for raising the sum of \$..... as recited in column 6, schedule "A," for special rates on roads for drainage purposes, a rate of mills on the dollar of the assessed value of the whole rateable property of the township be levied and collected.

SCHEDULE "A"

1 No. of By-law	2 Name of Drain	3 No. of Levy	4 Total No. of Levies	5 Annual Lands	6 Annual Roads

5. That the amounts specified in column 5, schedule "A," shall be levied in accordance with the several by-laws pertaining thereto.

6. That for public and separate school purposes, a rate on the dollar of the assessed value of the whole rateable property in each school section be levied and collected for the maintenance of the said schools for the year in accordance with the Statute of Ontario, Ed. 1, Chap. 39, Sec. 71, and the rate in each section be the rate set opposite the number of the section in column 5 of schedule "B" hereto.

SCHEDULE "B"

1 No. of School	2 Trustees' Requisition	3 Asst.	4 Tp. portion of School Rate	5 To be levied against School Section	6 Total Rates for Sec.

7. That for raising the sum of \$..... required for general school rate as enumerated in column 4, schedule "B," a rate of mills on the dollar be levied on the whole rateable property liable therefor.

8. That for the payment of debentures and interest thereon issued on account of the several school sections, due in the year the following rates to be levied:—

(a) That a rate of mills on the dollar be levied and collected upon and from the whole rateable property (\$.....) liable therefor, in school section No.

(b)

(c)

9. That the clerk shall also enter in the collector's roll for the year..... the following sums:—

DITCHES AND WATERCOURSES.

Name of Drain	Amount	Where Enumerated
a		
b		

Line Fences	Amount	Where Enumerated, or Specify
a		
b		

Tile, Stone and Timber Drainage	Amount	No. of By-laws
a		
b		

Arrears of Taxes	Amount	Enumerate Lands
a		
b		

Statute Labor,days, \$..... each, per Pathmaster lists.

Dogs,....., \$.....each, see Assessment roll.

10. That this By-Law shall come into force upon and after the final passing thereof.

....., Reeve.

....., Clerk.

With a by-law, such as the above before him, the auditor ought to be able without trouble to establish the accuracy or otherwise of the collector's roll. It

should be said that preliminary to this a comparison as between the assessment roll and the collector's roll should be made for the purpose of ascertaining that the assessments have been properly transferred from the one to the other.

In a well conducted township, the auditors should find a drainage rate book, in which will be copied all the schedules pertaining to drainage or other by-laws, under the authority of which annual levies are made. This rate-book will show the amount placed in the special drainage columns as a charge (a) against the ratepayer interested, and (b) against the township. This latter will be included in the tax roll in a bulk sum sufficient in amount to cover the required levy under the several by-laws of the township's proportion chargeable to Roads. If there be no Drainage Rate book, the Auditor must fall back upon the original by-laws for information as to the amount which ought to be levied under each head.

RECAPITULATION OF COLLECTOR'S ROLL.

The Statute requires that a recapitulation of the collector's roll should be entered in the back thereof, showing the several purposes and amounts for which taxes are being levied, and which ought to be somewhat after the following form:

Assessment	Rate	Amount of Levy
\$500,000	County Rate	2 \$1,000.00
	Township Rate	4 2,000.00
	Drainage Rate (Township proportion) . . .	1 500.00

Special Drain Rates:

Big Creek	By-law	45	1,700.00
Old Govt.	"	40	1,100.00
Turnbull	"	94	684.00
Turnbull	"	64	202.00
Ruscomb River	"	91	156.00
Jones	"	89	108.00
Little Creek	"	81	462.00
No. 4 Govt.	"	46	195.00
Alexander	"	68	621.00
No. 3 Govt.	"	53	700.00
No. 1 Govt.	"	93	150.00
No. 1 Govt.	"	97	636.00
No. 2 Govt.	"	56	213.00
7th Con. Extension	"	57	107.00
Halliday	"	61	200.00
Silex Walk	"	83	65.00

Silex Walk	" 100	60.00
Leamington & St. C. Ry.....	" 228	489.00
Police Village of Comber, levy.....		800.00
" " " Statute labor..		250.00
Library Rate, Comber.....		43.00
Drainage Awards:		
Jones		7.00
Johnson		15.00
Jamieson		25.00
Line Fences:		
Thompson		150.00
Smith		2.00
Anderson		5.00
Dog Tax		225.00
Noxious Weeds		12.00
Arrears of Taxes.....		74.00
Tile, Stone and Timber Drainage (if any)		

Assessment.

\$408,000.00	General School Rates:	760.00
	Special School Rates:	
38,000.00	S. S. No. 4 Public.....\$150.00	800.00
24,000.00	" 5 Union..... 90.00	300.00
30,000.00	" 7 Separate.....	75.00
81,000.00	" 1 & 7 Public..... 100.00	238.00
60,000.00	" 8 Public..... 50.00	283.00
25,000.00	" 9 & 14 Public..... 70.00	160.00
20,000.00	" 9 & 14 Separate...	175.00
30,000.00	" 11 Separate.....	200.00
12,000.00	" 2 Separate.....	74.00
50,000.00	" 12 Public..... 40.00	
60,000.00	" 13 Public Union.... 125.00	
70,000.00	" 15 Public Union.... 125.00	

\$ 750.00

Special Debenture Levy:		
81,000.00	S. S. No. 1 & 7 Public.....	195.20

Total value of Roll.....\$16,668.70

Note—Fictitious figures are used for illustrative purposes.

A duplicate of the recapitulation should be at once furnished the Treasurer by the clerk, to enable him to properly enter the contents of the collector's . . . in the township books of account. A pro-forma exhibit of the necessary journal entry is shown:

FORM OF JOURNAL ENTRY.

Collector of Taxes, Dr.		\$25,000.00	
General fund, Cr.			\$5,850.00
Township and County rate.	\$5,000.00		
Surplus Drain rate.	150.00		
Surplus general school rate.	200.00		
Arrears of taxes.	50.00		
Statute labor.	100.00		
Dog tax.	350.00		
Debenture levies account, Cr.			9,300.00
Name of Drain. By-law No.	1,000.00		
Name of Drain. By-law No.	500.00		
Name of Drain. By-law No.	100.00		
Name of Drain. By-law No.	75.00		
Name of Drain. By-law No.	125.00		
Name of Drain. By-law No.	2,000.00		
Name of Drain. By-law No.	1,700.00		
Name of Drain. By-law No.	3,000.00		
Name of Drain. By-law No.	120.00		
As many lines as there are drains			
included in levy.			
S. S. No. 7, debenture.	180.00		
S. S. No. 2, debenture.	500.00		
Drain award (Jones)			50.00
School rates:			
S. S. No. 1	1,700.00		
S. S. No. 2	550.00		
S. S. No. 3	450.00		
S. S. No. 4	1,000.00		
S. S. No. 5	700.00		
S. S. No. 6	300.00		
S. S. No. 7	800.00		
S. S. No. 8	3,000.00		
S. S. No. 9	1,300.00		9,800.00
	<hr/>	<hr/>	<hr/>
	9,800.00	25,000.00	25,000.00

NOTE.

(1) For convenience, the special rate accounts are balanced with the debenture requirements without taking into account the non-resident roll; the adjustments are made through the general fund. The gross amount of the non-resident fund is credited to general fund.

(2) In the above exhibit, drainage award levies are not included in the general fund as is the common practice. As will be pointed out, a special account should be opened for each award and then receipts either in cash or assessments will be credited direct.

(3) Any surplus in special rates (general drain and general school rates) common to the whole township, goes into general fund and similarly, any deficiency is made good out of the same fund.

(4) By reason of the fact that these several schedules have been taken from reports on file in my office, it will be noticed that the figures differ. The examples are thus given to show the diversity of detail with which the auditor will meet.

JOURNAL ENTRY FOR NON-RESIDENT COLLECTOR'S ROLL.

Arrears of Taxes, Dr.	\$80.50	
General Fund, Cr.		\$80.50
For return of taxes on non-resident roll sent to County Treasurer, Oct. 31, 190..		

The Collector of Taxes is presumed to pay to the Treasurer, or into a bank designated in the by-law under which he is appointed, tax collections at stated periods. When all the taxes have been collected which are found possible (distrain, if necessary, having been resorted to) and by the date specified in the statute, the Collector should return his roll to the Treasurer.

He should make up a statement, in duplicate, of the lands upon which he finds nothing distrainable, or the owners of which may have become non-resident, and upon which the taxes have not been paid.

One copy he will deliver to the Treasurer, together with a statement showing (a) the total amount of taxes collected in Cash, (b) the total amount ordered written off, or allowed by the Council, and (c) the amount as per the return of uncollected taxes heretofore mentioned. The sum of these should make up the total of the Collector's Roll.

Taxes in the nature of personal property taxes, dog taxes, etc., which cannot be returned as Arrears, and errors which may have crept into the Roll, are the items which will be included in class "b" above. If the auditor finds (while prosecuting his work) that these items have not been passed upon by the Council he

should include a statement of them in his report, and in the Collector's Adjustment account.

ARREARS OF TAXES.

If the Collector is unable to collect all the taxes on the Collector's Roll, he shall deliver to the Treasurer and the Clerk of his municipality, an account of all taxes due on the Roll, and in such account he shall give the reason (Sec. 147) why he was unable to collect, and the Clerk shall mail a notice to each person in arrears. The Collector, upon taking oath before the Treasurer that he was unable to collect the taxes, shall be credited with the amount not realized.

The Treasurer of every township and village shall, within 14 days after the time appointed for the return and final settlement of the Collector's Roll, and before the 8th day of April in every year, furnish the County Treasurer with a statement of all unpaid taxes, but any person in arrears may pay to the local treasurer, his taxes before the treasurer sends the statement to the County Treasurer.

(In cities and towns the Treasurer thereof performs the duties herein assigned to county treasurers, and the Mayor the duties of the Warden.)

The County Treasurer shall keep a separate book for each township and village, in which he shall record the amount against each lot, or part of lot, and on each first day of May, shall add to the amount, ten percentum thereof.

If the taxes are not paid to the County Treasurer, for a term of three years, he shall furnish the clerk of each local municipality, on or before the first day of February in each year, with a statement of the lands liable to be sold for arrears of Taxes, and the Clerk shall file the same, and give a copy to the Assessor. The Assessor shall notify each owner and occupant that the property is liable to be sold for arrears of taxes, and shall mark in the Assessment Roll that the owner has been notified. He shall return the list to the Clerk of the municipality with a statement stating that the land is "occupied" or "unoccupied" and correcting any error in the description.

The Clerk must furnish the County Treasurer with a copy of the Assessor's statement, and if the land is occupied, the County Treasurer must return on or before September 15th, the amount of the arrears to the Clerk, who shall enter the same upon the Collector's Roll.

If the land is unoccupied, or if occupied and the taxes cannot be collected, and a portion of the taxes has been in arrears for three years or more, the County Treasurer shall submit to the Warden a list, in duplicate, of all the lands liable to be sold for arrears of taxes, with the amount of the arrears against each lot, and the Warden shall authenticate each of such lists by affixing hereto the seal of the Corporation and his signature. One such list shall be deposited with the County Clerk, and the other shall be returned to the Treasurer, with a warrant

thereto annexed, under the hand of the Warden, and the seal of the county, commanding the Treasurer to levy upon the land for the arrears due thereon, with his costs.

The County Treasurer shall prepare a copy of the list of lands to be sold, and shall include therein, in a separate column, a statement of the proportion of costs chargeable on each lot for advertising, and for the commissions authorized to be paid to him, and shall cause such list to be published four weeks in the Ontario Gazette, and once a week, for thirteen weeks, in some newspaper published within the county. The advertisement shall contain a notification that, unless the arrears and costs are sooner paid, the Treasurer shall proceed to sell the lands for the taxes, on a day, and at a place, named in the advertisement. The Treasurer shall also post a notice, similar to the advertisement, in some convenient place at the court house of the county, at least three weeks before the time of sale.

If the taxes have not been paid, the Treasurer shall sell by public auction, so much of the land as is sufficient to discharge the taxes, and the lawful costs; but if he is unable to sell any land for the full amount of arrears of taxes due, he shall adjourn the same until a day, then to be publicly named by him, which shall not be earlier than one week, nor later than three months. Notice of the adjourned sale shall be given by public advertisement in the local newspaper, and on such day he shall sell such lands, unless otherwise directed by the local municipality in which they are situate, for any sum he can realize; but the Council of the local municipality may purchase the same, if the price offered at such adjourned sale is less than the amount of the arrears.

The treasurer shall keep a triplicate receipt book and give the purchaser a certificate of the land sold, and shall furnish a duplicate thereof to the county clerk. Any owner may redeem the property sold by paying the full amount of the arrears and costs, together with ten per centum of the purchase price.

If not redeemed, the county treasurer and warden shall, upon payment of \$1.00, issue a tax deed, in duplicate, to the purchaser who will be the owner of the property.

It is the duty of the auditor to see whether or not all these provisions of the statute, as applicable to the corporation accounts under inspection, have been complied with, and if they have not, he should include such paragraphs in his report as will set forth wherein the council or the officials, have been remiss in their duties.

Arrears of taxes are, under present methods, less susceptible of proof than almost any other form of municipal revenue. In the majority of municipalities it will be found that no record or ledger account is kept of such arrears. The law permits these to be collected by the local treasurer between the date of receipt of

the roll from the tax collector and the date of the transmission of the arrears of taxes to the county treasurer.

This particular department of municipal accounts is one of the most prolific of the several sources of peculation, for the reason that absolutely no means of check upon the officials exists in the great majority of municipalities.

In a recent investigation I found that a county treasurer had collected some \$12,000 of arrears of taxes for which he had not accounted to the local municipalities, and in the course of the audit I had occasion to call in all the local treasurers and to examine their books in an endeavor to obtain information in this particular connection. Not ... one single instance did I find even an attempt at keeping an account in the township books, which would give information as to the value of the arrears in the hands of the county treasurer. There was absolutely no check, as between the local municipality and the county treasurer's office, in respect to these arrears. In connection with that audit I prepared a system of reports between the officials of the minor municipalities and the county, which, when carried into effect, placed the local municipality in possession of information as to the amounts remaining uncollected, in the hands of the county treasurer from time to time, or if collected, then not accounted for.

ACCOUNTING FOR ARREARS OF TAXES.

I cannot do better than include in this paper an outline of the system then prepared. Three years have passed since the system went into operation in the county mentioned, and during that time I have had occasion to examine the books of a number of the local treasurers, and I have found that the ledger accounts have agreed exactly with the balance reported by the county treasurer. The procedure is as follows:

(1) Each township or municipality returning arrears of taxes to the county treasurer for collection, to obtain a land register, the counterpart of the one in the county treasurer's office.

(2) The land register to be written up showing the taxes and percentages uncollected as on Dec. 31st previous.

(3) This book is to be kept by the local treasurer.

(4) Upon receipt by the local treasurer of the clerk's returns of non-resident taxes (a duplicate of the one forwarded by the clerk to the county) the treasurer to enter in the land register the taxes against the several properties.

(5) Similarly, upon receipt by the local treasurer of the collector's return of uncollected taxes, he shall prepare his return of taxes to the county treasurer in duplicate. The original he will forward to the county official. From the duplicate he will enter in the land register the taxes so returned against the several properties.

(6) Upon May 1st in each year the county treasurer shall prepare a statement showing in detail the percentages added to the several properties, copy of which he will forthwith mail to the local treasurer.

(7) Upon receipt thereof the local treasurer will post to the debit of the several accounts in his land register the percentages so added by the county treasurer.

(8) The county treasurer will, as early as possible after January 1st in each year, forward to the local treasurer a statement (upon the form supplied) showing in detail the amounts collected during the preceding half year, together with a cheque in settlement thereof.

(9) The local treasurer will, immediately upon receipt of this statement, enter to the credit of the several lots, upon which the taxes have been paid, the amount as stated by the county treasurer in his report.

(10) When for any reason taxes are written off by resolution of the council of the local municipality, the clerk is to furnish the township treasurer a duplicate of the resolution forwarded to the county treasurer, when the local treasurer will, in his land register, on the credit side, make the following entry: "Written off by resolution of council dated 190 . . ."

(11) Immediately at the conclusion of a sale of lands for arrears of taxes the county treasurer to forward to each local municipality a statement showing the properties disposed of and the sum realized, making special mention of any properties that have not brought the full amount of taxes charged against them.

This statement to be accompanied by a cheque covering the proceeds of the sale. The local treasurer will credit each property included in such return, making an entry under the proper date, as follows: "By tax sale, 190.. \$....." In case the property be sold for less than the taxes against it, a further entry will be needed to balance the account, viz: "Loss on realization at tax sale (1903) \$....."

(12) The county treasurer to forward to the local treasurer a duplicate of his return to the clerk, of occupied lands to be placed upon the collector's roll; upon receipt of which the local treasurer will make an entry upon the credit side of the land ledger, viz: "By returned to clerk Roll 190., \$."

(13) Immediately after the 1st of January in each year the county treasurer to forward a statement in detail of all uncollected taxes appearing in his land register, as at Dec. 31st previous, to the clerk of the local municipality, which statement the clerk shall deliver to the auditors.

OTHER REVENUES.

In the matter of school grants, special grants, licenses, fines, payments from other municipalities, etc., this information will be obtained from the replies to the communications, to which reference has heretofore been made.

The amount received by way of loans and from sales of debentures can generally be ascertained from the bank pass books, and confirmation of these figures may be obtained by direct correspondence with the firms or persons to whom the debentures were sold. Reference to the municipal minute book and to the several by-laws passed during the year, will furnish information as to the extent to which these debentures have been issued.

A recent statute provides that all municipalities making payments to the treasurers of other municipalities shall notify the head of the receiving municipality of the date purpose of payment and amount paid. These documents should be in the hands, either of the reeve, or on file in the office of the clerk and should be called for. Experience teaches that, although this is a statutory requirement, it is honored more in the breach than in the observance; and the auditor will be on the safe side who makes a direct request to each outside municipality for a complete statement of such payments.

EXPENDITURES.

As stated at the outset, it is not sufficient to ascertain simply what the total expenditures of the municipality are, but the auditor must see to it that these have been entered in the proper accounts.

The government cash book now in use provides a fairly good classification of these expenditures. It is not possible, however, to arrange any cash book with a sufficient number of columns so as to dispense with the use of a ledger. A journal is equally necessary. Through the latter will appear all transfer entries (first having been authorized by the council); entries placing the collector's roll upon the treasurer's books; entries charging arrears of taxes (county treasurer) and crediting general fund with the percentages from the county treasurer's report, which should be received immediately following May 1st, and other items of like character.

In the government cash book, as now provided, all receipts and payments on account of schools and drainage are entered under the columns so headed, irrespective of the particular school or drain to which the same may refer. These must be posted in detail to the individual accounts in the ledger. Before the financial position of any municipality can be determined, it is necessary to ascertain the balances which are due to the several school sections, and which are due on account of drainage or local improvements. If the charges and credits have been properly made to the individual accounts in the ledger this information will be readily ascertainable.

DRAINAGE ACCOUNTS.

In some municipalities arrangements are made for temporary loans wherewith to construct drainage works, and the work is charged with the interest which

has been paid upon these loans. In a case such as this, accrued interest, if any, received upon a debenture sale, and should be credited to the construction account. The auditor may find, however, that this credit has been given to the drain account, although the money has been advanced out of the general fund, and the interest paid has been charged to the same fund. A transfer of the accrued interest should be made from the drainage account back to the general fund; the drainage account being entitled only to a credit for the proceeds of the sale of the debentures and of any premium thereon. Where a surplus exists in connection with drainage works, it sometimes occurs, that the first, and oftentimes the second equal annual payment is omitted from the collector's roll, and is, instead, charged against the construction account. This is quite a proper proceeding. The auditor must be careful to note such a fact as this, however, and not report assessments such as these as still being due, as has frequently been done.

Some treasurers merge the drain construction account with the debenture and levies account. In other words, each year the construction account is credited with the levy made and is later charged with the equal annual payment which ought to be even in amount with the levy, unless, of course, there is a proportion which is to be made up out of special trust funds, to which detailed reference will be later made. A proceeding such as this would give the correct financial standing of the municipality as a whole, but not of the drainage works, unless it happens that the equal annual payments made and the tax levy were entered in the account within the same year. Ordinarily, however, the taxes are levied a year in advance, and the levies which have not been utilized for payment of principal and interest of debenture, become a liability of the township. To carry the accounts as above outlined would make it appear that there was a sum at credit of the drainage account available for distribution amongst the ratepayers, while in reality the balance is only in hand and retained to meet the maturing annual debenture payment.

A much better method is to keep, absolutely separate, the construction account and the debenture-levies account. When the collector's roll is being transferred to the ledger (see form of journal entry) all levies on account of principal and interest for debentures should be placed to the credit of an account called debenture-levies account, the contra entry being included in the total charge to the collector.

As the principal and interest of these debentures mature, and is paid, debenture levies account is charged through the cash book. The balance remaining at credit of this account should represent at all times the amount on hand to redeem debentures, and the balance so appearing is to be included as a liability in the balance sheet.

The bond or debenture liability account is reduced to its proper amount at the close of the fiscal year through the medium of a journal entry.

DITCHES AND WATERCOURSES, OR AWARD DRAINS.

Payments of money in connection with ditches and watercourses, or award drains will nearly always be found bunched in one account in a municipal treasurer's books or merged in the general fund accounts. Payments of this character must be taken out and analyzed. To do so, it is necessary to have before you the award made by the engineer (under Sec. 18 of the Ditches and Watercourses Act) and the payments made should be compared with those authorized under the award. Any outstanding accounts will be liabilities of the corporation, and they will also be assets by reason of the fact that the money is to be collected from the interested parties. The amounts thus paid, or to be paid (if not liquidated previously) must be placed on the collector's roll with an added 7 per cent. (Sec. 27). If an owner fails to complete his share of the work, as determined by the engineer's award, the township will sell the same (Sec. 28) and when the work has been completed the township's engineer will certify the same in writing (Sec. 29) stating the amount to be paid to the contractor and such other fees as are properly chargeable, giving the number of the lot or lots which ought to be charged therewith. These amounts must be paid by the municipal council, in any event, and if the property owners fail to reimburse the municipality, the sum, with 7 per cent. added, shall be placed upon the next collector's roll (Sec. 30).

It is the duty of the auditor to see that all these provisions of the act have been complied with, and to determine the asset or liability existing in connection therewith at the date of the audit. Any proportion of the cost of works of this character, to be borne by the township, must be noted, and if the sums have not been credited to the account and charged to the general funds of the municipality, such an entry should be made by the auditor. If the accounts are carried individually the debit balance in each instance should indicate that the amounts have not been charged upon the collector's roll. Frequently, however, these may have been charged and no information furnished the treasurer which would enable him to put through the proper credit. The auditor must not accept a debit balance as final, unless he has first made an examination of the collector's roll for purposes of verification.

LINE FENCE ACT.

As payments under this heading are infrequent, one account will be sufficient, all payments made under line fences being charged to it.

It will be necessary to have the award of the fence-viewers (Sec. 7) or the

agreement between owners (Sec. 14) and the decision of the county judge (Sec. 13) if an appeal is made from the fence-viewers' award to ascertain if the proper amounts have been paid to the treasurer, or placed upon the collector's roll as directed by S. S. 2 of Section 12.

If any owner fails to obey the award, and the party desiring to enforce it (S. S. 1 of Sec. 9) does the work and obtains a certificate from the clerk of the Division Court (S. S. 2 of Sec 9) the amount shall be placed upon the collector's roll and collected as other taxes. To properly check the payments under Line Fences Act, it will be necessary to have the award, or agreement, decision of County Judge, and certificate of the clerk of the Division Court in each case.

DRAINAGE ADJUSTMENTS.

In adjusting accounts, as between the several drainage works and the general funds of the municipality, the greatest care must be exercised. The method of handling surpluses differs with different municipalities.

Surpluses may arise from two sources: the obtaining of a premium from the sale of the debentures, or that the cost of construction has been less in amount than the debenture issue.

In either case the surplus is the property of those who are assessed, and not of the general fund or of the township as a whole. Most councils are agreeable to returning the surplus which may arise through a letting of the contract below the engineer's estimate, but in the case of premiums, many of them are possessed of the mistaken idea that these premiums are the common property of the municipality, and they are consequently dumped into the general fund.

Care must be taken to see that surpluses arising from either source have accrued to the benefit of the proper parties, and if not, the matter should be reported upon and the amount in question should be carried as a liability of the general fund and as an asset of the drain or local improvement in question.

Surpluses of this character are treated in several ways: (a) by the passing of an amending by-law, returning the surplus in cash, pro-rata, to the interested parties, (b) by the application of the premium or surplus toward the payment of the first principal or interest which falls due on account of these particular debentures, a pro-rata reduction being made for that particular year in the assessment against the various property owners, and (c) by the passing of a by-law providing for an annual pro-rata reduction of assessment, covering the life of the several debentures issued.

It must be said that the latter is the really equitable manner of dealing with such refunds, the reduction in assessment thus inuring to the benefit of the taxpayers properly entitled thereto. Surpluses treated in this way, however, create

liabilities on the part of the township, which must be taken to account annually in determining the financial position of the municipality.

To illustrate, we will assume that the Brown drain in the township of Douglas is to be constructed. The engineer's estimate of the cost of the work is \$5,000.00; the actual cost of construction amounts to \$4,500.00, leaving a surplus on this account of \$500.00. The debentures sold at a premium of \$200.00, making the total surplus \$700.00, to which the ratepayers assessed (and the township, for the proportion borne by it on account of roads) are entitled. An amending by-law is passed providing for the reduction annually in the several assessments of a sufficient amount so that at the expiration of the life of the debentures the ratepayers as a whole will have contributed \$4,300.00 out of the \$5,000.00 principal, for which the debentures were issued, and the township will have annually paid out of its general fund (into which the surplus went) the difference being the amount of the annual assessment and the sum required to meet the debenture.

Now what is the position of the township with reference to this surplus? In the beginning, it had a trust fund of \$700.00, out of which it is to pay at the end of the first year the sum required to make up the difference between the amount contributed by the interested ratepayers and the amount of the equal annual debenture. This difference amounts to \$90.65 on a 10 year 5 per cent. debenture. The liability of the township at the end of the first year will be shown by the following statement:

Liability at the beginning of the year	\$700.00
Interest on Trust Fund 5 per cent.	35.00
	<hr/>
	\$735.00
Less amount taken out of above fund to make up the difference between the sum contributed by those assessed, and the amount of the equal annual payment	90.65
	<hr/>
	\$644.35

It is plain, therefore, in preparing a statement of the financial position of the township, that the balance of \$644.35 must be treated as a liability, and that this will be a reducing amount, as the years go by, at the end of ten years having been completely retired.

Amusing are the difficulties which an auditor is liable to meet with in convincing the council or officials of a municipality, that items of this nature are really liabilities, and this is usually found to be one of the sources of deficiency in townships where this method of treating refunds is followed.

Oftentimes the auditor will find By-laws which do not provide a sinking fund; which do provide for an equal annual assessment, but not for an equal annual payment. To illustrate: A by-law is passed for \$1000.00, 10 years, 5 per cent. Provision is made to assess annually for ten years, \$129. 50. The terms of repayment are: Interest payable annually upon unpaid principal and the principal to be repaid \$100.00 per year.

Now let us see how this will work out in practice:

The first payment will be:

Principal	\$100.00
Interest on \$1,000. 1 year, 5 per cent	50.00
	<hr/>
First levy	\$150.00
	129.50
	<hr/>
Asset of Township	\$20.50

It will be seen that the township has advanced \$20.50 out of its general fund, which sum must be considered as an asset in determining the financial standing of the municipality. Let us continue now and ascertain the position at the end of the second year:

Interest on \$20.50, 1 year, 5 per cent	\$ 1.02
Second payment principal	100.00
Second payment interest, \$20.50 @ 5 per cent	45.00
	<hr/>
	\$166.52
Second levy	129.50
	<hr/>
Asset of Township	\$37.02

and in like ratio up to the point where the principal has been so reduced that the principal and interest payable each year is less than the annual levy, when the municipality begins to recover a portion of its advances. The point I wish to make is, I hope, perfectly clear; that the auditor must discover all peculiarities such as these, as may exist and make his calculations and balance sheet accordingly.

SINKING FUND.

Another prolific source of trouble is the sinking fund. In but few municipalities will the sinking fund be found up to the standard of its requirements. Where debentures are issued upon the installment or sliding scale, the sinking fund proposition does not enter, but where no part of the principal is repaid to the holders

during the currency of the debentures or bonds, a sinking fund will generally be found. The full amount of interest, and a portion of the principal, is collected from the ratepayer annually. The interest is paid over to the debenture holder, and the principal into an account known as the sinking fund. This fund must be made to earn a rate of interest, equal to that calculated at time of issuing, and this is compounded yearly or half-yearly, during the whole period of existence of the debt, so that at maturity of the debentures, there ought to be in this fund just a sufficient amount to repay the principal. In making an examination of the municipal finances, the value of the sinking fund must be obtained. The original by-laws will require to be scanned, for the purpose of ascertaining the amount of the annual levy, and the rate of interest upon which it was based. This latter information will probably not be found in the by-law, and must be figured out by the auditor. Having obtained this data from each of the several by-laws, the auditor will proceed to make calculations for the purposes of determining just how much money should be in the sinking fund under each by-law. The sum of these will represent the standard at which the sinking fund should be maintained, and any difference between that amount and the actual balance in the sinking fund, will be a deficiency which must necessarily be charged against the general funds of the municipality and be made up in the current tax rate. In the address before the Institute, previously referred to, I expressed the sentiment that the sinking fund was a curse to the average municipality. In the intervening years, I have had no reason to change my mind or position in this respect, and it is pleasing to know that in but very few municipalities (in larger towns and cities only) are debentures issued upon any other than the installment or sliding scale.

I had desired to touch upon the different conditions which exist in a county audit, as compared with a township, dealing with the administration of justice, deductions therefrom, treatment of coroner's fees, conveyance of prisoners, keeping of insane, and of incorrigibles, and many other points, but time will not permit.

OTHER POINTS FOR CONSIDERATION.

There is abundant material for several other papers, equally as important and probably more interesting.

There are a thousand and one things which it has not been possible for me to touch upon, even in the briefest manner, a few of which I shall now refer to, such as:

Verifying the opening cash and bank balances.

The stamping upon every voucher of the word "Audited" and the initialing of same.

The noting of sources of revenue which have ceased to exist, and the ascertaining of the fact that the cessation of revenue is regular.

The examining of the bonds of the several officials and reporting thereon, as to sufficiency or otherwise.

The examining of securities (if any) held by the municipality and ascertaining that all these are in order.

That all Corporation property is fully and properly insured.

That the treasurer keeps his own and the Corporation funds religiously separate.

The balancing of the treasurer's cash by actual count, even if to do so it be found necessary to carry the cash audit down to the very day of closing.

The reconciling of the Bank and Cash accounts, noting outstanding cheques.

That the prescribed school index of separate school supporters is being properly kept.

That all minutes of proceedings have been regularly and properly signed.

That the official records are properly cared for and filed.

The return of a duplicate of the abstract and detailed report of the auditor to the bureau of industries by a specified date.

And many others.

THE BALANCE SHEET.

Two balance sheets should be shown, or if only one, then so subdivided that the first section should show the financial position of the municipality, having regard to current assets upon the one hand and to the liabilities which are a charge against these assets upon the other.

If the current assets exceed the liabilities (with proper provision for loss upon realization) then the remaining balance may, and should properly, be taken to account in the preparation of the estimates of the succeeding year, and would make for a reduction in the rate of taxation.

Upon the other hand, if the current and floating liabilities requiring to be met out of the available assets exceed the amount of such collectible assets, then the excess of liability becomes a deficiency, which should be included in the estimates of the succeeding year, as a sum to be provided for, with a resultant increase in the tax rate.

I have said should be; I ought to say must be, for that would be in strict compliance with the statute, but, unfortunately, members of council are prone to omit from their estimates the liabilities of their predecessors in office, and these are allowed to accumulate until such time as they become unbearable, when recourse is had to special legislation for permission to consolidate the floating indebtedness and provide for it by a special debenture issue.

It must, however, be said in fairness that in a great majority of instances, the financial statements which are prepared for the guidance of the estimators

are absolutely unintelligible upon this point and councils have the ready excuse that the true position was not pointed out to them.

It usually falls to the lot of the auditor to prepare the balance sheet, and I cannot do better than recommend the form of balance sheet which was presented in my address on municipal accounting previously referred to.

STATUTORY AMENDMENTS BADLY NEEDED.

It may perhaps be suggested that I have travelled a good deal outside the scope of the requirements of an audit made in strict compliance with the statutes, and I am inclined to plead guilty to the charge. Besides describing what is, I have tried to suggest what ought to be, and if I have in some things gone beyond the strict letter of the statute, it is because I conceive that the statutes ought to be amplified and amended to include a great many details not now to be found therein.

It would be of vast advantage to the province as a whole if, when next the Municipal and Assessment Acts are being generally revised, the Legislature would submit those portions of the several acts which have to do with the accounting methods of municipalities, to a commission of accountants, who have had a thoroughly grounded experience in municipal accounts, for revision. The introduction into these acts of amendments requiring simple systems of report, as between urban, local and county municipal officials, and as between these officials themselves and the councils having to do not only with tax matters but with other questions of an accounting character, which affect all municipalities, would go far toward rendering nearly impossible the cases of peculation and embezzlement which are so frequently arising.

CONCLUSION.

And now Mr. President,

I have set out in a crude way some of the matters upon which the auditor of municipal accounts ought to possess a knowledge. The books and system of the average municipality will be found sadly deficient in many of the points discussed, but if the auditor is possessed of information as to what ought to be, he can the more readily note the deficiencies and be able to report thereon, making recommendations which will be of the greatest value to the municipality; and my experience is that, in most cases, such assistance is gladly received, even though it may not always be acted upon. In any event, the auditor will have the satisfaction of feeling that HIS WHOLE DUTY HAS BEEN DONE.